



MANAGEMENT 223: BUSINESS STRATEGY

Spring 2009

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COURSE DESCRIPTION

This course focuses on the competitive strategy of the firm, examining issues central to firms' long- and short-term competitive position. The course develops a set of analytical frameworks that enable students to explain performance differences among firms and that, in turn, provide a structure for making strategic decisions to enhance firms' future competitive positions. The first module of the course analyzes strategy at the business unit level, introducing tools of industry analysis and competitive positioning. The later part of the course considers corporate strategy, examining the economic logic for firms to diversify across businesses and for vertical integration decisions across stages of the industry value chain. The final segment of the course addressed the challenges of adaptation and change.

TEXT AND READINGS

- The bulkpack includes a collection of readings and cases and is available from Wharton Reprographics. In addition, there is a required text: Pankaj Ghemawat, Strategy and the Business Landscape, 2nd edition.

COMMUNICATION

The primary means of communication outside of class is the course web page on Webcafé. You can reach the Web Café room for the course at <http://webcafe.wharton.upenn.edu>.

Class Participation

Your participation in class is expected to help both your learning and that of your peers. A productive learning environment requires active engagement of all class members. Three factors determine good class participation. First, given thorough and careful preparation, you should be able to identify the important managerial issues related to the case and/or readings. Second, you should be able to use that analysis to define a concise and logical position on the issues, arguing how a particular concept is illustrated in the case or suggesting how the substantive problem presented in the case can be solved. Third, you should be able to analyze constructively the positions your classmates take. Also, please note that a good question --- even an expression of puzzlement may help the collective learning process as well as your own learning.

Group Project

Early in the course, students form groups that will work during the semester on the final project. Groups can choose from a menu of topics including the organizational development of a firm over its entire history, an analysis of a firm's responses to a competitive shock (technological, regulatory, demand), an assessment of the logic of a firm's competitive position, or a contrast between two qualitatively distinct positions within the same industry. More information will be provided on the first day of class.

GRADING

Grading is based on a number of different components as outlined in the following table.

Factor	Weighting
Individual assignments	
• Participation	25%
• Individual case write up (Sunrise)	20%
• Mid-term exam	20%
Project team assignments	
• Presentation	10%
• Final Report	25%
Total	100%

INDIVIDUAL CASE WRITE UP

You will be required to do one case write-up on an **individual basis**. The case, Sunrise Medical, is in your course pack. I will hand out the case questions on February 5th in class. Each student will be responsible individually for an analysis of the case which is limited to **3 pages** (single-spaced, 1 inch margins, Times Roman 12 pt. font) of text and an optional 1 page of exhibits. This assignment is **due February 7th at the start of class**. Please bring in a hard copy. It is an individual assignment and **should not** be done with your project team.

MID-TEM EXAM

This exam will focus on the material subsequent to spring break on Corporate Strategy. It will be an in-class exam. You will be provide with a brief, case-like, statement of a company's situation and asked to analyze it drawing on relevant course concepts.

USE OF PRIOR MATERIALS

It is **never** appropriate to use materials prepared by students in this course from prior terms. In particular, you should not use previously completed case write ups or summaries of readings.

COURSE OUTLINE

Introduction

Class 1: Introduction and course overview (Th 1/15)

Positioning and Competitive Advantage

Class 2: Logic of Competitive Advantage (Tu 1/20)

- Readings: P. Ghemawat, "Creating Competitive Advantage," Chapter 3 of *Strategy and the Business Landscape* 2nd edition.
- Case: **Edward Jones in 2006: Confronting Success**
 1. Identify the market segment in which Edward Jones chooses to compete. How difficult is it to generate revenues and profit in this segment?
 2. What activities does Edward Jones undertake to generate profit in this segment? What activities does Edward Jones not do, or do differently, than its competitors? What does it give up by not doing these activities?
 3. Should Edward Jones change any of aspects of its strategic positioning? What threats are there, if any, to its current position?

Class 3: Positioning and willingness-to-pay (Thur 1/22)

- Case: **Husky Injection Modeling Systems**
 1. What is Husky's strategy? Why has the company been so successful in the period prior to the recent problems?
 2. Are Husky Injection modeling systems worth the premium price the company charges?
 3. How should Robert Schad, Husky's CEO, respond to these challenges?

Class 4: Positioning and Relative Costs Competitive positioning (Tu 1/27)

- Case **Samsung Electronics**
 1. What recommendation would you make to Chairman Lee regarding Samsung's response to the threat of large-scale Chinese entry?
 2. What are the sources of Samsung's cost advantage in DRAM in 2003?
 3. What are the sources of Samsung's price premium in DRAM in 2003?

Class 5: Value Chain and Interdependent Activity Choices (Thur 1/29)

- Reading R. Grant, "Bringing it all together: The value chain in differentiation analysis," in *Contemporary Strategy Analysis*, 6th edition, 2008 pp 255-259
- Case **Matching Dell**

C. Lawton, "Consumer demand and growth in laptops leave Dell behind," *Wall Street Journal*, August 30, 2006 and M. Richtel, "Coming soon to Wal-Mart: 2 low-end PCs from Dell," *New York Times*, May 25, 2007 (available on WebCafe)

1. Why has Dell been so successful despite the low average profitability in the PC industry? What are some of the key choices Dell has made in how it competes to distinguish it from its primary competitors?
2. Prior to the efforts by competitors to match Dell, how big was Dell's comparative advantage (circa 1997)? In addition to your assessment of Dell's relative cost position, what is your view of buyers' willingness to pay for a Dell machine?

Hints: To size up Dell's competitive advantage, you need to analyze both cost and differentiation. To analyze differentiation, you need to compare (a) the willingness of customers to pay for a typical PC from Dell and (b) the willingness to pay for a PC from the Compaq/reseller team. Similarly, to analyze costs you need to compare Dell's cost of producing and delivering a PC with those of the Compaq/reseller team. Try to quantify the savings or extra costs associated with this contrast.

3. Why has it been hard for competitors to respond to the challenge posed by Dell's competitive advantage? How sustainable is Dell's position?
4. Looking at the two supplemental news articles, what is your assessment of what has happened since the time of the case? Do you agree with Dell's decision to sell its computers through Wal-Mart?

Class 6: Challenges of Dual Strategies (Tu 2/3)

- Case

Delta Air Lines (A): The Low-Cost Carrier Threat

1. Despite the overall low rates of return in the airline industry, a few carriers such as Southwest and JetBlue experience strong profits. How?
2. Why have all of the low-cost subsidiaries of legacy airlines, including Delta Express, failed? What will happen to Delta Air Lines if it continues to respond to low-cost airlines in the way it has in the past?
3. What are the strategic options available to the cross-functional team that Mark Balloun co-leads? What steps should the team take to choose among the options and make a recommendation to Delta's board? Based on the information available to you, what course of action would you recommend to Delta's board?

Class 7: Reprise of Positioning (Thur 2/5)

- Readings: M. Porter, "What is Strategy?" *Harvard Business Review*, November-December 1996.
R. Grant, "Intra-Industry Analysis," in *Contemporary Strategy Analysis*, 6th edition, 2008, pp. 117-118.
W. Chan Kim and Renee Mauborgne, "Creating New Market Space". *Harvard Business Review*, January-February 1999.

Class 8: Integrative Exercise (Tu 2/10)

- Case

Sunrise Medical

Instructions and questions will be handed out on 2/5. Individual write-up will be due at the beginning of class today.

Industry Analysis

Class 9: Structural Analysis of Industries (Thur 2/12)

- Readings: P. Ghemawat , “Mapping the Business Landscape,” Chapter 2 of *Strategy and the Business Landscape* 2nd edition.
- Readings: **Cola Wars Continue: Coke and Pepsi in 2006**
 1. Why is the soft-drink concentrate industry dominated by two firms? What is the basis for scale economies in this industry?
 2. Use the 5-Forces framework to explain why the cola concentrate industry is so profitable.
 3. How has the industry structure changed in the 1990s to the present? Can Coke and Pepsi sustain their profits in the U.S. in the wake of the growing popularity of non-carbonated drinks?

Class 10: Strategic Interaction (Tu 2/17)

- Readings: P. Ghemawat , “Anticipating Competitive Dynamics,” Chapter 4 in *Strategy and the Business Landscape* 2nd edition, pp. 69-81.
- Case: A series of exercises will be given out in class

Class 11: Industry Transitions and Shifting Bases of Competitive Advantage (Thur 2/19)

- Case: **BMG Entertainment**
 1. Why have a handful of major record companies dominated the music industry through most of the last century?
 2. How does the advent of the Internet change the structure and economics of the music industry? Will major record companies continue to dominate the business?
 3. Does BMG’s approach to the Internet make sense? What should Zelnick and Conroy do? Specifically, what should the strategy and structure of BMG’s digital organization be? Should BMG continue to work with a wide array of technology partners?

Class 12: Network Externalities and Standards (Tu 2/24)

- Readings C. Shapiro and H. Varian (1999). “The art of standards war”. *California Management Review*, 41(2): 8-32.
- Case Adobe Systems Incorporated
 1. How was Postscript established as a de facto standard? How did Adobe make money from Postscript, despite its being an open standard?
 2. Which firm is currently in a stronger position to control de facto standards in the eBook space: Adobe or Microsoft?
 3. What should Adobe do? How can they win the standards war? Should they focus on eDocs or eBooks? Will the eBooks market tip or will there be multiple standards? How can Adobe make money in this market?

Class 13: Industry Dynamics (Thurs 2/26)

- Readings R. Grant (2008). “Industry evolution and strategic change,” in *Contemporary Strategy Analysis*, 6th edition pp 264-275.

Class 14 and Class 15: Project Meetings (Tues 3/3 and Thurs 3/5)

CORPORATE STRATEGY

Class 16: Understanding differences in firm level performance (Thurs 3/17)

- Readings: J. Barney and W. Hesterly (2006), "Evaluating a Firm's Internal Capabilities," in *Strategic Management and Competitive Advantage*, pp. 74-112.
- Cases: **McKinsey & Company and Toyota case (articles available on WebCafe)**
J. Huey, "How McKinsey Does It," *Fortune*, November 1, 1993
A. Taylor, "How Toyota Defies Gravity," *Fortune*, December 8, 1997
"The Car Company in Front," *The Economist*, January 29, 2005
 1. What is the unique source of competitive advantage developed by McKinsey and by Toyota? Where in the organizations is it located?
 2. What are the similarities and differences between how the two companies develop and maintain their core competencies?
 3. What challenges have they faced in leveraging these capabilities into new markets/businesses? How did they address these challenges?

Class 17: Development and Transformation of Firm Capabilities (Tues 3/22)

- Case **Saturn: A Different Kind of Car Company and Saturn Corporation in 1998**
 1. What is Saturn's strategy for delivering value to consumers and dealers? Has Saturn's strategy been successful?
 2. How can Saturn fulfill the second part of its mission: to transfer knowledge, technology, and experience throughout General Motors? What does Saturn have to offer the rest of GM?
 3. What was the rationale at General Motors for Saturn's mid-sized car program and for the Delta platform?

Class 18: Economic rationales for the scope of the firm (Thurs 3/24)

- Readings: P. Ghemawat, "Choosing Corporate Scope," Chapter 6 in *Strategy and the Business Landscape* 2nd edition.
J. Barney and W. Hesterly (2006), "Vertical Integration," in *Strategic Management and Competitive Advantage*, pp. 180-187

Class 19: Diversification strategies and vertical linkages (Tues 3/29)

- Case: **The Boundaries of the Magic Kingdom**
 1. Think about Disney's choices about horizontal and vertical integration. Analyze the linkages among Disney's business units: a) To what extent are the business units leveraging common resources? b) Are the linkages among the business units of the type that could not be coordinated using contracts among independent firms? Does the answer to these questions play out differently among different

- parts of their operations?
2. Consider Disney's acquisition of the ABC television network (ABC/Capital Cities). Do you see an economic logic for the acquisition? Is the logic one of scope economies or vertical integration? To what extent does the logic of vertical integration play out differently in the context of broadcast television versus cable properties (such as ESPN)?

Class 20: Corporate Development: The Mature Company Perspective (Th 3/31)

- Case: **Emerging Business Opportunities at IBM (A)**
 1. Why do large companies like IBM find it so difficult to create new businesses? What are the primary barriers to success?
 2. What is your evaluation of the "horizons of growth" model? What are the distinguishing features of emerging H3 businesses?
 3. How did the EBO management system evolve over time? What are the key elements of the current EBO management system? What is your evaluation of this system?
 4. Any action recommendations for Harreld with respect to those businesses now reaching H2 status, the number of EBOs, or other issues?

Class 21: Corporate Development: The Emergent Firm Perspective (Tues 4/2)

- Case **Leerink Swann & Co: Creating Competitive Advantage**
 1. What are the key elements of Leerink Swann's business operations during its first 10 years? How did the firm a) establish its business, b) gather expertise, c) organize its operations, and d) coordinate its interdependent production process?
 2. What implications for Leerink Swann's future are posed by changes a) in health-related industries, b) in the talent market, c) among the firm's competitors, and d) among the firm's customers?
 3. How well positioned is Leerink Swann for future challenges in the investment banking business? Is this the right time to expand that business, or would you recommend a different growth strategy to Jeff Leerink? Why?
 4. What will you further recommend to Jeff Leerink in order to both, a) secure Leerink Swann's existing competitive advantage, and b) seize the full value of the strategic opportunity in investment banking? Given your choice, what organizational design choices does Leerink Swann have to make?

INTEGRATION AND SUMMARY

Class 11: Integrating and applying concepts (Tu 12/05)

- Readings: N/A

- Case: **Ice-Fili**
Questions and further instructions will be handed out in class well in advance of the due date. For advanced planning, you should know that the team assignment will be due on 12/04 at 12 noon.

Class 12: Wrap up and conclusions (Th 12/07)

- Readings: C. Christensen, "The past and future of competitive advantage," MIT Sloan Management Review, Winter 2001, pp. 105-109.
- Case: N/A

OVERVIEW OF MANAGEMENT 654 CLASSES AND CONCEPTS

Class	Date	Topic	Analytical tool/ theoretical perspective	Case
1	10/26	Introduction and course overview	The concept of strategy	N/A
2	10/31	Structural analysis of industry	Five Forces	Soft-drink
3	11/02	Industry analysis and competitive positioning	Generic strategies Strategic groups Value chain Activity systems	Choose your own case
4	11/07	Competitive positioning, continued	Competitive positioning Competitive advantage Intra-industry analysis	Dell
5	11/09	Strategic interaction	Competitor analysis	Ryanair
6	11/14	Integrating understanding of competitive strategy	Review of competitive strategy concepts	Sunrise Medical
7	11/16	Understanding differences in firm level performance	Resource based view Core competence	McKinsey and Toyota
8	11/21	The scope of the firm	Economies of scope and diversification; Vertical integration	Amazon
9	11/28	Diversification strategies	Economies of scope and diversification; Vertical integration	Disney
10	11/30	Linking corporate strategy to corporate finance	Portfolio models of planning Capital budgeting Real Options	N/A
11	12/06	Integrating and applying concepts	Integration of strategic concepts	Ice-Fili
12	12/08	Wrap up and conclusions		N/A